

# **Tanner Capital Management, LC**

## **Form ADV Part 2A**

### **Investment Adviser Brochure**

**March 2015**

This brochure provides information about the qualifications and business practices of Tanner Capital Management, LC. For additional information about the contents of this brochure, please contact J. David Tanner, Managing Member and Chief Compliance Officer. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Tanner Capital Management, LC is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). A search may be performed using a unique identifying number, known as a CRD number. Tanner Capital Management, LC's CRD Number is 123497.

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## Item 2: Summary of Material Changes

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### **Annual Update**

This item of the Brochure is updated if material changes have occurred during the course of Tanner Capital Management's fiscal year; or with Tanner Capital Management's Annual Updating Amendment (ADV).

### **Material Changes since the Last Update**

Since the last ADV filing, there are no material changes to report.

The Supplement to the Investment Adviser Brochure of Tanner Capital Management (TCM) provides information regarding certain Supervised Persons of TCM that make investment decisions or provide investment advisory services for investment advisory clients of TCM.

### **Full Brochure Available**

A new Brochure will be provided as necessary based on changes or new information, at any time, without charge.

TCM's Brochure may be requested by contacting J. David Tanner, Managing Member and Chief Compliance Officer, at 801.377.1144 or [David.Tanner@RaymondJames.com](mailto:David.Tanner@RaymondJames.com).

Additional information about TCM is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with TCM who are registered, or are required to be registered, as investment adviser representatives of TCM.

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## Item 4: Advisory Business

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### **Firm Description**

Tanner Capital Management, LC (TCM), founded in 1997, is an investment advisor which provides investment advisory and financial planning services to individuals, pension and profit sharing plans, and trusts and estates. TCM may also select other advisors for clients. TCM is owned jointly by J. David Tanner, Managing Member and Chief Compliance Officer, and his wife, Natalie R. Tanner.

### **Types of Advisory Services**

#### **Investment Advisory Services**

TCM provides continuous advice to a client or makes investments for a client based on the individual needs of the client. Through personal discussions, goals and objectives are established based on a client's particular circumstances, then TCM creates and manages a portfolio based upon those objectives. TCM manages these advisory accounts on a non-discretionary basis.

TCM will allocate the client's assets among various investments, taking into consideration the overall management style selected by the client. Mutual Funds, ETFs, separately managed accounts (SMAs), and alternative investments will be selected on the basis of any or all of the following criteria: performance history, industry sector, track record, management style, and philosophy of the manager (as applicable). Portfolio weighting between investment types and market sectors will be determined by each client's individual needs and circumstances.

### **Accounts Managed by TCM**

#### **Passport Accounts**

TCM provides a fee-based "Passport" account through our affiliation with Raymond James Financial Services, Inc. (RJFS), member FINRA/SIPC. There is a minimum investment of \$25,000 for Passport accounts.

Using the Passport account, TCM provides the client with ongoing investment advice and monitoring of securities holdings. TCM will manage accounts on a non-discretionary basis, according to the client's stated objectives and risk tolerance. The client pays an advisory fee based on the assets in their account and a nominal transaction charge in lieu of a commission for each transaction (see *Item 5: Fees and Compensation* for Passport fee information).

### **Accounts Managed by Other Asset Managers**

#### **Wrap Fee Programs**

A "wrap fee" program is one that provides the client with advisory and brokerage execution services for an all-inclusive fee (the client is not charged separate fees for the respective components of the total service). TCM actively solicits advisory clients for the program and is responsible for the marketing of the program.

In evaluating the program, clients should consider that, depending upon the level of the wrap fee charged, the amount of portfolio activity in the client's account, the broker

dealer's usual commission rates, and other factors, the wrap fee may be more or less than the aggregate cost of such services if they were to be provided separately and if TCM were to negotiate commissions and seek best price and execution of transactions for the client's account.

Further, clients should be aware that the person recommending the program to the client may receive compensation as a result of the client's participation in the program; that the amount of this compensation may be more than what the person would receive if the client participated in other programs of the sponsor or paid separately for investment advice, brokerage, and other services; and that the person may therefore have a financial incentive to recommend the wrap fee program over other programs or services.

TCM participates in various wrap fee programs offered through our affiliation with RJFS. These wrap fee programs include:

- Freedom Accounts
- Freedom Unified Managed (UMA) Accounts
- Raymond James Consulting Services (RJCS Managed) Accounts

### **Freedom**

The Freedom Account is an investment advisory account which allocates client assets, through discretionary mutual fund or exchange traded fund (ETF) management, based upon their financial objectives and risk tolerances. TCM appoints RJA as the investment advisor to select the representative funds and monitor their performance on a continuing basis. TCM receives a portion of the fee.

### **Freedom UMA**

The Freedom UMA Account is an investment advisory account which, like the Freedom account, allows clients to allocate their assets through discretionary mutual fund or ETF management, based upon their financial objectives and risk tolerances. Additionally, assets may be invested through affiliated or unaffiliated investment advisers ("Managers") registered with the SEC with which RJA has entered into a sub-advisory agreement. TCM receives a portion of the fee.

### **RJCS**

Under the Raymond James Consulting Service (RJCS), RJA, as the advisor, selects certain portfolio managers, monitors account performance, provides accounting and other administrative services, and assists portfolio managers with certain trading activities. Based upon a client's financial needs and investment objectives, TCM may assist in selecting an appropriate manager(s). TCM receives a portion of the fee.

***For further information about any of the programs listed above, refer to the Raymond James & Associates ("RJA") Wrap Fee Program Brochure.***

### **Financial Planning and Consulting**

TCM offers financial planning services, which may include a review of multiple aspects of a client's current financial situation, including the following components: cash management; risk management; insurance; education funding; goal setting; retirement, estate, and charitable giving planning; tax planning; and capital needs planning. TCM meets with the client to review risk tolerance, financial goals and objectives, and time horizons. Additional meetings may include a review of additional financial information: sources of income, assets owned, existing insurance, liabilities, wills, trusts, business agreements, tax returns, investments, and personal and family obligations.

Financial planning services may be broad based, or may focus on certain components. When TCM is engaged to address only certain components, the client's overall financial and investment issues may not be taken into consideration.

### **Tailored Relationships**

TCM tailors investment advisory services to the individual needs of the client. The goals and objectives for each client are documented in our client relationship management system. TCM clients are allowed to impose restrictions on the investments in their account. TCM may accept any reasonable limitation or restriction to discretionary authority on the account placed by the client. All limitations and restrictions placed on accounts must be presented to TCM in writing.

### **Client Assets**

As of December 31, 2014, TCM manages approximately \$270 million in assets. All assets are managed on a non-discretionary basis.

## Item 5: Fees and Compensation

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TCM fees are based on a percentage of assets under management. The Passport fee schedule below is the standard fee schedule as indicated in the specific Raymond James Client Agreement. In most circumstances, TCM provides discounts from the standard fee schedule.

### Compensation – Investment Advisory Services

#### Passport Accounts

The Passport Account (Passport) is an investment advisory account, administered by RJA, which offers, on a non-discretionary basis, the ability to pay an advisory fee on the assets of an account and a nominal transaction charge in lieu of a commission for each transaction.

The advisory fees for Passport Accounts are as follows:

<u>ACCOUNT VALUE</u>	<u>ANNUAL FEE</u>
First \$500,000	2.25%
Next \$500,000	1.75%
Next \$4,000,000	1.25%
Greater than \$5,000,000	1.00%

Pursuant to the investment management or advisory agreement, Account Value is defined as the total absolute value of the securities in the Account, long or short, plus all credit balances, with no offset for any margin or debit balances.

The annual asset-based fee is paid quarterly in advance. When an account is opened, the asset-based fee is billed for the remainder of the current billing period and is based on the initial contribution. Thereafter, the quarterly asset-based fee is paid in advance, and is based on the account asset value as of the last business day of the previous calendar quarter, and becomes due the following business day. If cash or securities, or a combination thereof, amounting to at least \$100,000, are deposited to or withdrawn from an account on an individual business day in the first two months of the quarter, Raymond James will: (i) assess asset-based fees based on the value of the assets on the date of deposit for the pro rata number of days remaining in the quarter, or (ii) refund prepaid asset-based fees based on the value of the assets on the date of withdrawal for the pro rata number of days remaining in the quarter. No additional asset-based fees or adjustments to previously assessed asset-based fees will be made in connection with deposits or withdrawals that occur during the last month of the quarter unless requested by the client.

Notwithstanding the above \$100,000 adjustment threshold, Raymond James reserves the right, in its sole discretion, to process or not process fee adjustments when the source and destination of deposits and withdrawals involve a client's other fee-based advisory accounts. For example, a transfer of \$100,000 into a joint RJCS account funded from two \$50,000 withdrawals from separate Passport accounts will have the \$100,000 billed in their joint RJCS account and each of the Passport accounts will be

refunded previously assessed fees on the separate \$50,000 withdrawals for the pro rata period remaining in the quarter.

Each client authorizes and directs RJA as Custodian to deduct asset-based fees from their account; clients further authorize and direct the Custodian to send a quarterly statement which shows all amounts disbursed from their account, including fees paid to RJFS. The brokerage statement will show the amount of the asset-based fee. The asset-based fees associated with the Passport account include all execution and clearing charges except: (1) certain dealer-markups and odd lot differentials, transfer taxes, exchange fees mandated by the Securities and Exchanges Act of 1934, and any other charges imposed by law with regard to any transactions in the account; and (2) offering concessions and related fees for purchases of public offerings of securities as more fully disclosed in the prospectus.

Additionally, there is a nominal Processing Fee for the execution of each trade, as follows:

<u>SECURITY TYPE</u>	<u>PROCESSING FEE</u>
Exchange Traded Equities: Listed and OTC (common and preferred)	\$9.95
Open End Mutual Funds (applicable to purchases only*)	
Participating Funds	Waived
Partner Funds	\$30.00
Non-Partner Funds	\$40.00
Closed End and Exchange Traded Funds	\$9.95
Real Estate Investment Trusts/Unit Investment Trusts	\$9.95
Options Contracts	\$30.00
Bonds: Government, Corporate, Municipal, and Mortgage-Backed	\$30.00

\*Select fund companies have agreed to pay administrative fees to Raymond James in consideration for Raymond James' waiver of the \$30 Processing Fee assessed on certain Passport Account mutual fund purchases ("Participating Funds"). Select fund companies have agreed to pay marketing service and support fees to Raymond James ("Partner Funds"). "Non-Partner Funds" do not participate in Raymond James's Education and Marketing Support program. Effective May 5, 2014, the above Processing Fees will be applied to purchases of Partner and Non-Partner Funds. ERISA Plan and SIMLPE IRA accounts will be charged \$30 for Partner and Non-Partner Fund purchases. Clients should be aware that funds may change their Participating, Partner, or Non-Partner status at any time, so they should consult with their financial advisor to verify their status periodically.

In addition to the foregoing Processing Fee, a charge of \$5.95 will apply per transaction for handling charges. Charges may also be incurred for other account services provided by RJA not directly related to the execution and clearing of transactions including, but not limited to, IRA custodial fees, safekeeping fees, interest charges on margin loans, and fees for legal or courtesy transfers of securities.



## **Compensation – Investment Advisory Services**

### **Wrap Fee Programs (Freedom, Freedom UMA, and RJCS)**

For further information, refer to the Raymond James & Associates (“RJA”) Wrap Fee Program Brochure.

## **Compensation – Pension Plans**

Generally fees are charged as a percentage of assets under management. While rare, there may be occasions that a fixed fee is charged; this fee will be negotiated accordingly with the client.

## **Compensation – Financial Planning**

Financial Planning and Consulting fees may be charged on an hourly basis of \$250 per hour. All financial planning and consulting fees are due in arrears, upon presentation of the financial plan or consulting engagement for the client.

## **Compensation – Brokerage Accounts**

TCM’s supervised persons (employees) may accept compensation for the sale of securities or other investment products. None of TCM’s compensation is derived from commissions or other sales-related revenue.

## **Compensation and Other Fees – General Information**

In certain circumstances, fees, account minimums and payment terms are negotiable depending on a client’s unique situation—such as the size of the aggregate related-party portfolio size, family holdings, low cost basis securities, or certain passively advised investments and pre-existing relationships with clients. Certain clients may pay more or less than others depending on the amount of assets, type of portfolio, time involved, degree of responsibility assumed, complexity of the engagement, special skills needed to solve problems, application of experience, and knowledge of the client’s situation.

TCM’s fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund’s prospectus. A client could invest in a mutual fund or sub-account directly, without the services of TCM. In that case, the client would not receive the services provided by TCM which are designed, among other things, to assist the client in determining which mutual funds or sub-accounts are most appropriate to each client’s financial condition and objectives. Accordingly, the client should review both the fees charged by the funds/sub-accounts and the fees charged by TCM to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Such charges, fees, and commissions are exclusive of and in addition to TCM's fee, and TCM shall not receive any portion of these commissions, fees, and costs.

All fees paid to TCM for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. Mutual funds purchased by TCM for a client account will be executed at NAV. Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

## **Other Compensation Considerations**

### **Administrative-Only Assets**

Certain securities may be held in a Passport account and designated "Administrative-Only" assets. For example, TCM may make an arrangement with a client to hold a security that was not recommended by TCM or which they may want to hold for an extended period of time and do not wish TCM to sell for the foreseeable future.

In such cases, TCM may elect to waive the advisory fee on this security, but allow it to be held in the non-managed advisory account. Alternatively, we may determine that certain securities may be held in an advisory account but are not eligible for the advisory fee (such as mutual funds purchased with a front-end sales charge through Raymond James within the last two years).

Such designated assets will not be assessed an advisory fee. Administrative-Only assets will, however, be included in the account value when calculating applicable asset-based advisory fee rates. For example, a client whose Passport Account Value is \$550,000 and is comprised of \$50,000 of Administrative-Only assets will have the asset-based fee rate assessed based on a \$550,000 Account Value, however this rate will only be assessed to \$500,000 of the eligible assets in the account, as follows:

First \$500,000 in assets charged at 2.25%; Next \$50,000 in assets charged at 1.75% = \$12,125 annualized fee (2.20% annualized rate); \$550,000 less \$50,000 of Administrative-Only assets x 2.20%=\$11,000 annual fee; (\$11,000 / \$550,000 = 2.00% overall annualized rate on total Account Value)

### **Asset-Based Fee Aggregation – Passport**

Participants in the Passport program and other wrap fee accounts may be entitled to discounted asset-based fees if they maintain one or more eligible Related Accounts within these programs.

Related Accounts are accounts of an individual, his or her spouse, and their children under the age of twenty-one. The term includes individually owned accounts, individual retirement accounts (IRAs), self-directed accounts (i.e., directed by individual participants) under an employee benefit plan (ERISA plan) and ERISA plan accounts in which an individual is the sole participant. Thus, Related Accounts participating in the Passport program may be aggregated for advisory fee purposes, so that each account will pay a fee which is calculated on the basis of the total of all Related Accounts. It is each client's responsibility to identify all Related Accounts for purposes of qualifying for

an aggregated account fee discount. While we may attempt to identify related accounts, we will not be held responsible for failing to consider any related accounts not listed by the client.

### **Billing on Cash Balances**

Raymond James generally assesses advisory fees on cash sweep balances (“cash”) held in Passport and Freedom accounts, provided the cash balance does not exceed 20% of the total Account Value. If the cash balance is greater than 20% of the Account Value as of the last business day of the quarter (the “valuation date”), Raymond James will bill on the full cash balance provided cash did not comprise greater than 20% of the billable Account Value for three consecutive quarterly valuation dates. If the cash balance exceeded 20% of the cash balance for three consecutive quarterly valuation dates, the amount in excess of 20% is excluded from billing. For example, a Passport account that held 30% of the Account Value for three consecutive billing valuation dates (March 31st, June 30<sup>th</sup>, and September 30th) would have the amount in excess of 20% excluded from the Account Value in which advisory fees are applied. For simplicity of illustration, assuming an account was valued at \$100,000 for all three quarterly billing periods, with \$30,000 held in cash, the September 30th valuation date would exclude \$10,000 of the cash from the Account Value when assessing the advisory fee.

The aforementioned Cash Rule is applicable only to cash sweep balances and, therefore, non-sweep money market investments would not result in excess “cash” balances being excluded from the asset-based advisory fee calculation. As a result, non-sweep money market mutual fund investments are generally prohibited as an investment option in fee-based accounts. However, certain money market mutual funds may be approved as an investment option, but will be designated as Administrative-Only assets as long as those investments are held in a fee-based account. Neither RJFS nor TCM will receive fee-based compensation on these investments, but may receive compensation in the form of a 12(b)-1 fee or trail from the fund company.

### **Investment of Cash Reserves**

Raymond James has established a system in which cash reserves “sweep” daily to and from investment accounts to cover purchases or to allow excess cash balances to immediately begin earning interest, subject to certain minimum balances. The account in which these cash reserves are held is considered the client’s sweep account. Available sweep options include the Raymond James Bank Deposit Program (“RJBDP”), the Client Interest Program (“CIP”) sponsored by Raymond James, and a proprietary class of money market funds (the “Eagle Class - JP Morgan Money Market Funds”) of the JP Morgan Prime Money Market Fund, the JP Morgan US Government Money Market Fund, and JP Morgan Tax Free Money Market Fund, managed by JP Morgan Investment Management, Inc. (“JP Morgan”) and offered by Eagle. Clients may select RJBDP, CIP, the Eagle Class - JP Morgan Money Market Funds, or any combination thereof.

With respect to cash reserves of advisory client accounts, the custodian of the account assets will determine where cash reserves are held. The custodian may offer one or multiple options to different account types (such as non-taxable and managed accounts). In addition, the custodian may, among other things, consider terms and

conditions, risks and features, conflicts of interest, current interest rates, the manner by which future interest rates will be determined, and the nature and extent of insurance coverage (such as deposit protection from the Federal Deposit Insurance Corporation (“FDIC”) and Securities Investor Protection Corporation (“SIPC”)). The custodian may change an investment option at any time by providing clients with thirty (30) days advance written notice of such change, modification, or amendment.

If the RJBDP option is selected, clients are responsible for monitoring the total amount of deposits held at each Bank in order to determine the extent of FDIC insurance coverage available. Raymond James is not responsible for any insured or uninsured portion of client deposits at any of the Banks.

Raymond James Bank and the interest rate it offers may differ from the yield on the Eagle Class - JP Morgan Money Market Funds and CIP, but Raymond James Bank generally earns more than the interest it pays on such balances. The Eagle Class - JP Morgan Money Market Funds are offered by Eagle through an agreement with JP Morgan. Under the agreement, Eagle, Eagle Fund Services, Inc., and Eagle Fund Distributors, Inc. (together, the “Eagle Affiliates”), and Raymond James and its affiliate RJFS are compensated by the Eagle Class - JP Morgan Money Market Funds and JP Morgan for, among other things, distribution costs, shareholder record-keeping activities, and the coordination and administration of the funds.

Raymond James generally earns a higher rate of interest on CIP balances than the interest rate it pays on such balances. The income earned by the Eagle Affiliates and Raymond James is in addition to the asset-based fees that Raymond James receives from these accounts. Where an unaffiliated third party acts as custodian of account assets, the client and/or the custodian will determine where cash reserves are held.

Cash balances arising from the sale of securities, redemptions of debt securities, dividend and interest payments, and funds received from clients are transferred automatically on a daily basis to their cash sweep account. When securities are sold, funds are deposited on the day after settlement date. Funds placed in a client’s account by personal check usually will not be transferred to the sweep account until the second business day following the day that the deposit is credited to the investment account. Due to the foregoing practices, Raymond James may obtain federal funds prior to the date that deposits are credited to the investment account and thus may realize some benefit because of the delay in transferring such funds to their interest-bearing cash sweep account.

For further information, please refer to “Sweeps (Transfers) To and From Income Producing Accounts” in the **Understanding Your Rights and Responsibilities as a Raymond James Client** Brochure, a current copy of which is available from TCM, or visit the Raymond James public website: [raymondjames.com/cash\\_sweep.htm](http://raymondjames.com/cash_sweep.htm).

### **Agreement Terms**

This agreement for each of the aforementioned account programs may be terminated by the client or by TCM at any time upon providing notice to each other. There is no

penalty for terminating the advisory agreement. Upon termination, the client will receive a refund of the portion of the prepaid asset-based fee.

Accounts in the Passport program are not for day trading or other extreme trading activity, including excessive options trading or trading in mutual funds based on market timing. As such, pursuant to the respective program advisory agreement, we reserve the right to terminate, at our sole discretion, any client account in these programs.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

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Neither TCM, nor any of its Supervised Persons (employees) uses a performance-based fee structure (fees based on a share of capital gains or on capital appreciation of the assets of a client) because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## **Item 7: Types of Clients**

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### **Types of Clients**

As described in Item 4, TCM's clients include individuals, pension and profit sharing plans, trusts and estates.

### **Account Minimums**

The minimum account size requirement of \$1,000,000 may be negotiable under certain circumstances. TCM may group certain related client accounts for the purposes of achieving the minimum account size.

## **Item 8: Methods of Analysis, Investment Strategies, Risk of Loss**

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### **Methods of Analysis**

TCM may employ the following security analysis methods: Charting/technical, fundamental, and cyclical analysis.

TCM uses the following main sources of information including, financial newspapers and magazines, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange Commission (SEC), and company press releases.

### **Charting / Technical**

The terms "charting" and "technical" analysis are generally used synonymously and therefore, for the purpose of this document, we will use the term, "technical analysis." In most cases, technical analysis involves the evaluation of historical market data such as price and volume of a particular security or investment instrument. Technical analysis often times involves the use of charts, graphs, and

other tools to evaluate historical factors relating to the investment instrument and perhaps the market as a whole. The goal of technical analysis is to try to identify historical trading patterns that suggest future trading activity or price targets.

### **Fundamental**

Fundamental analysis is generally considered the opposite approach to technical analysis. Fundamental analysis involves the attempt to identify the intrinsic value (i.e. the actual, true/real value) of an investment instrument by examining any related economic, financial, and other quantitative/qualitative factors relevant to that instrument. Fundamental analysis can take into account anything that may impact the underlying value of the instrument. Examples of such things may include large-scale economic issues such as the overall condition or current cycle of the economy, industry-specific, or sector-specific conditions, etc. Other company/issuer-specific factors may also be taken into consideration such as the company's/issuer's current financial condition, management experience and capabilities, legal/regulatory matters, the overall type and volume of current and expected business, etc.

One of the goals of fundamental analysis is to attempt to derive a value that can be compared to the current market price for a particular financial instrument in hopes of determining whether the instrument is overpriced (time to sell) or underpriced (time to buy).

### **Cyclical**

Cyclical analysis involves the evaluation of an investment instrument or perhaps its issuer for the purpose of identifying whether (and if so, to what extent) it/they may be impacted by fluctuations in the overall economic conditions throughout time. As an example, as more and more people lose their jobs, broad industries like housing or the automotive industries can be negatively impacted because consumers are less able to purchase things like homes and automobiles.

### **Investment Strategies**

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time

TCM will allocate a client's assets among various investments taking into consideration the overall management style selected by the client. TCM develops portfolios based upon a client's goals, objectives, investment time horizon and risk tolerance, as well as their core financial-related values. Investment strategies may include long-term and short-term purchases depending upon the individual needs of the client. TCM uses asset allocation, or spreading investments among a number of asset classes and sectors (domestic stocks vs. foreign stocks; large cap stocks vs. small cap stocks; corporate bonds vs. government securities) for most client accounts.

When appropriate to the needs of the client, TCM may recommend the use of margin transactions. Because this investment strategy involves a certain degree of additional risk, it will only be recommended when consistent with the client's stated risk tolerance. Due to TCM's affiliation with Raymond James Financial (NYSE-RJF) and Raymond

James Bank, being a wholly owned subsidiary of Raymond James Financial Inc. (NYSE-RJF), a potential conflict of interest may exist.

### **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. All investment programs have certain risks that are borne by the investor. TCM's investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

### **Other Investments**

TCM may provide investment advice on limited partnerships and private placements, including hedge funds.

TCM may advise clients on any other type of investment that it deems appropriate based on the client's stated goals and objectives. TCM may also provide advice on any type of investment held in a client's portfolio at the inception of the advisory relationship or on any investment on which the client requests advice.

## **Item 9: Disciplinary Information**

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### **Legal and Disciplinary**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of TCM or the integrity of TCM's management. There have never been any legal or disciplinary actions against TCM or its management persons.

## **Item 10: Other Financial Industry Activities and Affiliations**

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### **Financial Industry Activities – Broker-Dealers**

TCM is not registered as a broker-dealer. Several of its management persons are registered representatives of a broker-dealer, RJFS.

### **Financial Industry Activities – Futures and Commodities**

Neither TCM nor any of its management persons is registered as (or associated with) a futures commissions merchant, commodity pool operator, or a commodity trading advisor.

### **Affiliations – Broker-Dealer Registered Representatives**

TCM's employees may be registered representative(s) of RJFS (member FINRA/SIPC). RJFS is a wholly owned subsidiary of Raymond James Financial, Inc. RJFS clears its securities transactions on a fully disclosed basis through Raymond James & Associates, (member NYSE), which is also a wholly owned subsidiary of Raymond James Financial, Inc. Notwithstanding the fact that principals and associates of TCM may be registered representatives of RJFS, TCM is solely responsible for investment advice rendered. Advisory services are provided separately and independently of the broker/dealer. This relationship could create a material conflict of interest with clients.

### **Other Affiliations**

As described in Item 5 and Item 12, employees of TCM may provide advice for an asset-based fee as Investment Adviser Representatives (IARs) or sell securities for commission as Registered Representatives through the broker-dealer, RJFS. RJFS is required to supervise the securities trading activities of its Registered Representatives. IARs recommend RJFS to advisory clients for brokerage services.



IARs may also be appointed with several insurance companies. IARs may be able to receive separate compensation for securities and/or insurance transactions implemented through RJFS and various insurance companies. Clients are not obligated to utilize any of these services for insurance or security product purchases. All clients are free to maintain relationships with other professionals such as insurance agents or securities brokers outside, or in addition to their relationship with TCM.

### **Other Investment Advisors**

As described in Item 4, TCM may select other investment advisors for its clients and may receive compensation from those advisors.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions, Personal Trading**

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### **Code of Ethics**

TCM employees must comply with a Code of Ethics and Statement for Insider Trading. The Code describes the Firms' high standard of business conduct, and fiduciary duty to its clients. The Code's key provisions include:

- Statement of General Principles
- Policy on and reporting of Personal Securities Transactions
- A prohibition on Insider Trading
- Restrictions on the acceptance of significant gifts
- Procedures to detect and deter misconduct and violations
- Requirement to maintain confidentiality of client information

J. David Tanner, Managing Member and Chief Compliance Officer, reviews all employee trades each quarter. These reviews ensure that personal trading does not affect the markets, and that clients of TCM receive preferential treatment.

TCM's employees must acknowledge the terms of the Code of Ethics at least annually. Any individual not in compliance with the Code of Ethics may be subject to termination.

Clients and prospective clients can obtain a copy of TCM's Code of Ethics by contacting J. David Tanner at 801.377.1144.

### **Participation or Interest in Client Transactions – Personal Securities Transactions**

TCM and its employees may buy or sell securities identical to those recommended to clients for their personal accounts. The Code of Ethics, described above, is designed to assure that the personal securities transactions, activities and interests of the employees of TCM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities, primarily mutual funds, have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of TCM's clients. In addition, the Code requires pre-clearance of certain transactions.

Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and designed to reasonably prevent conflicts of interest between TCM and its clients.

### **Participation or Interest in Client Transactions – Financial Interest and Principal/Agency Cross**

TCM and its employees do not recommend to clients, or buy or sell for client accounts, securities in which they have a material financial interest.

It is TCM's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts.

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

### **Participation or Interest in Client Transactions – Aggregation**

TCM and its employees may trade in the same securities with client accounts on an aggregated basis when consistent with TCM's obligation of best execution. In such circumstances, the affiliated and client accounts will share transaction costs equally and receive securities at a total average price. TCM will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

## **Item 12: Brokerage Practices**

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### **Research and Other Soft Dollar Benefits**

TCM does not receive formal soft dollar benefits other than execution from broker/dealers in connection with client securities transactions. See disclosure below in "Directed Brokerage – Other Economic Benefits".

### **Brokerage for Client Referrals**

TCM does not receive client referrals from broker/dealers.

### **Directed Brokerage**

Registered Representatives of RJFS are subject to FINRA Conduct Rule 3040 that restricts them from conducting securities transactions away from RJFS. Therefore, clients are advised that such IARs are limited to conducting securities transactions through RJFS. RJFS may charge a higher or lower fee than another broker charges for a particular type of service, such as transaction fees. Clients may utilize the broker dealer of their choice and have no obligation to purchase or sell securities through RJFS. However, if the client does not use RJFS, the IAR cannot accept the account. As a registered FINRA broker dealer, RJFS routes order flow through its affiliated broker dealer, RJA. RJA is obligated to seek best execution pursuant to FINRA Rule 2320 for all trades executed, however better executions may be available via another broker dealer based on a number of factors including volume, order flow, and market making activity.

While it is possible that clients may pay higher commission or transaction fees through RJFS, TCM has determined that RJFS currently offers a competitive value to TCM and its clients for their customer service, brokerage, research services, and technology. TCM believes these qualities make RJFS superior to most non-service oriented, deep-discount, and internet/web based brokers that may otherwise be available to the public.

### **Directed Brokerage – Other Economic Benefits**

Raymond James Financial Services, a subsidiary of Raymond James Financial, Inc. (Raymond James) may also provide general access to research, as well as discounts on research products. Any research received is used for the benefit of all clients. TCM has no written or verbal arrangements whereby it receives soft dollars. From time to time, Raymond James may offer TCM employees the ability to attend industry-related conferences or other benefits; however, TCM does not believe that such incentives impair TCM's independence.

TCM may have the opportunity to receive traditional “non-cash benefits” from Raymond James, such as customized statements; receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk servicing Raymond James advisors exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client accounts; access to an electronic communication network for client order entry and account information; access to mutual funds which generally require significantly high minimum initial investments or those that are otherwise only generally available to institutional investors; reporting features; receipt of industry communications; and perhaps discounts on business-related products.

RJFS may also provide general access to research, as well as discounts on research products. Any research received is used for the benefit of all clients. While TCM endeavors at all times to put the interest of the clients first as part of its fiduciary duty, clients should be aware that the receipt of any additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

**Investment or Brokerage Discretion – Wrap Fee Programs**

As disclosed in Item 4, clients may participate in the RJCS wrap fee programs. In evaluating a wrap fee program, a client should recognize that brokerage commissions for the execution of transactions in their account are not negotiated. Transactions are effected net, i.e., without commission and a portion of the wrap fee is generally considered to be in lieu of commissions. Trades are generally expected to be executed only with the broker dealer with which the client has entered into the wrap fee arrangement.

TCM may not, therefore, be free to seek best price and execution by placing transactions with other broker dealers. TCM's experience indicates that certain broker dealers under clients' wrap fee agreements generally offer best price for transactions in listed equity securities, but no assurance can be given that such will continue to be the case with those or other broker dealers which may offer wrap fee arrangements, nor with respect to transactions in other types of securities. The client may wish to ensure that the broker dealer offering the wrap fee arrangement can provide adequate price and execution of most or all transactions. The client should also consider that depending on the wrap fee charged by the broker dealer, the amount of portfolio activity in the client's account, the value of custodial and other services which are provided under the arrangement, and other factors, the wrap fee may or may not exceed the aggregate cost of such services were they to be provided separately and if the firm were free to negotiate commissions and seek best price and execution of transactions for the client's account.

**Trade Aggregation**

TCM does not aggregate or block trades.

**Item 13: Review and Reporting of Accounts**

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**Reviews**

Portfolios are generally monitored continuously, however reviews could also occur at the time of new deposits, material changes in client's financial information, changes in economic cycles, at TCM's discretion, or as often as the client may direct. Reviews entail analyzing securities, sensitivity to overall markets, economic changes, investment results, and asset allocation, etc., to ensure the investment strategy and expectations are structured to continue to meet clients' objectives.

Reviews are performed under the direction of J. David Tanner. TCM encourages frequent client contact, but will seek out contact no less than annually. However, clients are obligated to promptly notify TCM of any changes in their financial status to ensure that investment strategies continue to meet their changing needs.

**Review Triggers**

Other conditions that may trigger a review are changes in market, political, or economic conditions, tax laws, new investment information, and changes in a client's own situation.

**Reporting**

TCM prepares periodic reports which may include holdings, performance, and market information to investment management clients. Clients also receive quarterly brokerage statements, including all holdings, transactions, and fee payments.

**Financial Planning – Reviews and Reporting**

Financial Planning clients will be reviewed and receive reports as contracted for at the inception of the engagement.

**Item 14: Client Referrals and Other Compensation**

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**Other Compensation**

As disclosed in Item 12, TCM does not receive any formal economic benefits (other than normal compensation) from any firm or individual for providing investment advice.

**Client Referrals – Solicitation Arrangement**

TCM may enter into written arrangements to pay cash referral fees to individuals or companies (solicitors) who refer prospective clients to the Firm. In these cases, there will be a written agreement between TCM and the solicitors, which clearly defines the duties and responsibilities of the solicitor under this arrangement. In addition, each solicitor is required to provide a written disclosure document, which explains to the prospective client the terms under which the solicitor is working with TCM and the fact that the solicitor is being compensated for the referral activities. The solicitor is also required to furnish a copy of TCM's written disclosure document to the prospective client and obtain a written acknowledgement from the client that both the solicitor's and TCM's disclosure documents have been received.

**Item 15: Custody**

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**Custody – Fee Debiting**

Clients may authorize TCM (in the client agreement) to debit fees directly from the client's account at the broker dealer, bank, or other qualified custodian (custodian). Client investment assets will be held with a custodian agreed upon by the client and TCM. The custodian is advised in writing of the limitation of TCM's access to the account. The custodian sends a statement to the client, at least quarterly, which shows all amounts disbursed from client's account, including fees paid to RJA. The brokerage statement will show the amount of the asset-based fee, the value of the assets on which the fee was based, and the specific manner in which the fee was calculated. For the RJCS programs, if the client transfers management duties from one subadvisor to another subadvisor any prepaid asset-based fees will be reimbursed for the period not utilized by the previous subadvisor and billed for the remainder of the period for the newly designated subadvisor.

### **Custody – Account Statements**

As described above and in Item 13, clients receive at least quarterly statements from the broker dealer, bank, or other qualified custodian that holds and maintains client's investment assets. Clients are urged to carefully review such statements and compare such official custodial records to the account statements or other reports that TCM provides. TCM statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16: Investment Discretion**

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### **Discretionary Authority for Trading and Limited Power of Attorney**

TCM may accept limited power of attorney to act on a discretionary basis on behalf of clients. A limited power of attorney allows TCM to execute trades on behalf of clients.

When such limited powers exist between TCM and the client, TCM has the authority to determine, without obtaining specific client consent, both the amount and type of securities to be bought to satisfy client account objectives. Additionally, TCM may accept any reasonable limitation or restriction to such authority on the account placed by the client. All limitations and restrictions placed on accounts must be presented to TCM in writing. If TCM has not been given discretionary authority, TCM consults with the client prior to each trade.

## **Item 17: Voting Client Securities**

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### **Proxy Voting**

TCM does not have any authority to and does not vote proxies on behalf of clients. TCM also does not render advice to or take any actions on behalf of clients with respect to any legal proceedings, including bankruptcies and shareholder litigation. Clients retain the responsibility for receiving and voting proxies and any legal proceedings for securities maintained in their portfolios; clients receive these corporate actions directly from either custodians or transfer agents.

If requested, TCM may provide advice to clients regarding proxy votes and legal proceedings. If any conflict of interest exists, it will be disclosed to the client. Clients may contact J. David Tanner at 801.377.1144 for information about proxy voting.

## **Item 18: Financial Information**

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### **Financial Condition**

TCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. TCM is not required to provide a balance sheet; TCM does not require prepayment of fees of more than \$1,200 per client *and* more than six months or more in advance.

**Tanner Capital Management, LC**  
Form ADV Part 2B  
Investment Adviser Brochure Supplement

**Supervisor: J. David Tanner**

**Supervisor of:**  
Rick K. Skousen

**March 2015**

This brochure supplement provides information about the Firm's Supervised Persons that supplements Tanner Capital Management, LC's Brochure. Clients should have received a copy of that Brochure. If a copy was not received or if there are any questions about the contents of this supplement, clients should contact J. David Tanner, Managing Member and Chief Compliance Officer.

Additional information about the Firm's Supervised Persons is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

3610 North University Avenue, Suite 350  
Provo, UT 84604  
801.377.1144  
David.Tanner@RaymondJames.com

## Educational Background and Business Experience

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### Education and Business Background

TCM requires a college degree and/or extensive experience in providing advisory services as a minimum standard for professionals.

### Supervised Persons

***J. David Tanner***

Year of Birth: 1962

CRD #: 1409284

### Educational Background:

Brigham Young University  
BS Family Financial Planning & Counseling

### Business Background:

Tanner Capital Management, LC Managing Member	1997 – Present
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The Financial Resource Group Financial Advisor	1989 – 1997
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Raymond James Financial Services, Inc. Registered Representative	1989 – Present
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New Castle Financial Group Financial Advisor	1986 – 1989
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### Professional Designations:

Chartered Financial Consultant (ChFC), American College; FINRA Series 3, 7, 24, 31, 51, 63, 65

### Professional Certifications:

J. David Tanner holds the Chartered Financial Consultant (ChFC) professional designation which requires the following requirements:

**Prerequisites/Experience** (candidate must meet the following requirements):

- 3 years of full-time business experience within the five years preceding the awarding of the designation

**Educational Requirements:** 6 core and 2 elective courses

**Examination Type:** Final proctored exam for each course



***Rick K. Skousen***

Year of Birth: 1966  
CRD #: 2740299

**Educational Background:**

Brigham Young University  
BA American Studies, Masters in Business Administration

**Business Background:**

Tanner Capital Management, LC Financial Advisor	1999 – Present
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Raymond James Financial Services, Inc. Registered Representative	1999 – Present
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**Professional Designations:**

FINRA Series 6, 7, 31, 63, 65

## Disciplinary Information

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### Disciplinary Information

Neither TCM nor any Supervised Persons have ever been involved in any activities resulting in a disciplinary disclosure.

## Other Business Activities

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### Other Business Activities

Disclosure on Outside Business Activities is provided in Form ADV Part 2A Item 10 – Other Financial Industry Activities and Affiliations above. These Outside Business Activities do not create a material conflict of interest with clients.

Several Supervised Persons are actively engaged in other outside business activities.

J. David Tanner and Rick K. Skousen are licensed as independent insurance agents. They spend less than 5% of their time on this activity. They are also Registered Representatives of Raymond James Financial Services (RJFS). They spend less than 10% of their time on this activity.

As disclosed in Form ADV Part 2A Item 5 – Fees and Compensation, and Item 10 – Other Financial Industry Activities and Affiliations, J. David Tanner and Rick K. Skousen may receive commissions, bonuses, or other compensation based on the sale of securities or other investment products as Registered Representatives of RJFS. This practice gives the supervised persons an incentive to recommend investment products based on the compensation received, rather than on the client's needs.

## Additional Compensation

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No Supervised Person receives any formal economic benefit outside of regular salaries or bonuses related to amount of sales, client referrals, or new accounts.

## Supervision

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### Supervision

J. David Tanner, Managing Member and Chief Compliance Officer, supervises all persons named in this Form ADV Part 2B Investment Adviser Brochure Supplement. J. David Tanner supervises these persons by holding regular staff, investment, and other ad hoc meetings. In addition, J. David Tanner regularly reviews client reports, emails, and trading, as well as employees' personal securities transaction and holdings reports. J. David Tanner may be reached at 801.377.1144.